FISCAL NOTE

Bill #: SB0244 **Title: Investment tax credit**

Primary Sponsor: Jon Tester **Status: As introduced**

Sponsor signature Date Dave Lewis, Budget Director Date

Fiscal Summary

	FY2000 Difference	FY2001 Difference
Expenditures:		
General Fund	$0	$61,273
Revenue:		
General Fund	$0	($9,882,000)
Net Impact on General Fund Balance:	**$0**	**($9,943,273)**

Yes	No		Yes	No	
	X	Significant Local Gov. Impact		X	Technical Concerns
	X	Included in the Executive Budget	X		Significant Long-Term Impacts

Fiscal Analysis

ASSUMPTIONS:

1. This legislation applies to tax years beginning after December 31, 1999.
2. For tax year 1997, Idaho had an identical investment tax credit as the one proposed by SB244. Idaho's investment tax credit was 3 percent of qualified investments up to 45 percent of the taxpayer's liability, with a 7-year carryover period.
3. In Idaho, for returns processed in 1997, businesses claimed $34,622,073 in investment tax credits and individuals claimed $8,329,099 million in investment tax credits (Idaho State Tax Commission).
4. Based on U.S. Census data from 1992, Montana's total investment expenditure has been on average about 53 percent of Idaho's total investment expenditure (U.S. Bureau of the Census).

5. The ratio of investment tax credit claimed in Montana to that claimed in Idaho will be the same as the ratio of total investment expenditure in Montana to total investment expenditure in Idaho.
6. Prorated investment tax credits based upon the 53 percent ratio for Montana returns in tax year 1997 would have been $18,280,455 million for corporations and $4,397,764 million for individuals for a total of $22,678,219.
7. The first impact on individual income tax revenue will be FY2001.
8. The first impact on corporate license tax revenue will be in May and June of 2001 when approximately 30 percent of corporate returns are filed. The impact on corporate license tax revenue in FY2001 will be $5,484,137 ($18,280,455 x 0.30).
9. The Department of Revenue employs a selective audit technique to target the corporations' tax returns which are audited. It is anticipated that it will be necessary to audit the returns of the corporations claiming the income tax credit, thereby increasing the amount of returns which must be audited (Compliance Valuation and Resolution).
10. The Department of Revenue would incur $29,280 in additional costs in FY2001 from the change in the *corporation tax credit*. A majority of those costs, $17,013 would result from an additional personnel costs (0.5 FTE), $2,000 would result from computer programming operating expenses, $3,222 from other operating expenses and $7,045 from office equipment (Compliance Valuation and Resolution).
11. The Department of Revenue would incur $31,993 in additional costs in FY2001 from the change in the *individual income tax credit*. $13,989 of these costs would result from additional personnel costs (0.5 FTE), $7,318 would result from computer programming operating expenses, $3,641 from other operating expenses and $7,045 from office equipment (Compliance Valuation and Resolution).

FISCAL IMPACT:

	FY2000 Difference	FY2001 Difference
FTE	0.00	1.00
Expenditures:		
Personal Services	$0	$31,002
Operating Expenses	0	16,181
Equipment	0	14,090
TOTAL	$0	$61,273
Funding:		
General Fund (01)	0	61,273
Revenues:		
General Fund-Individual Income Tax (01)	0	(4,398,000)
General Fund-Corporate Income Tax (01)	0	(5,484,000)
Net Impact to Fund Balance (Revenue minus Expenditure):		
General Fund (01)	$0	($9,943,273)

LONG-RANGE IMPACTS:

The full impact of this bill from both income and corporation taxes would first be felt in FY2002. The estimated negative revenue impact pertaining to corporations is estimated to be about $18.28 million and that pertaining to individuals is estimated to be about $4.40 million with a total negative impact for FY2002 of $22.68 million, excluding carryovers.